



AR01

Forty-fourth Annual Report, October 31, 1971



**HARDING  
CARPETS** LIMITED



# Directors and Officers

## DIRECTORS

**FRANCOIS E. CLEYN**, Huntingdon, P.Q.  
*Chairman of the Board and Chief  
Executive Officer—Cleyn & Tinker, Ltd.*

**ALBERT DAVIDSON, C.A.**, Brantford  
*President—Harding Carpets Limited*

**J. DOUGLAS GIBSON, O.B.E.**, Toronto  
*Financial Consultant*

**C. MALIM HARDING, O.B.E.**, Toronto  
*Chairman of the Board and Chief  
Executive Officer—Harding Carpets  
Limited*

**JOHN D. HARRISON, Q.C.**, London  
*Partner—Harrison, Elwood, Gregory,  
Littlejohn, Fleming & Adams*

**Head Office**—Brantford, Ontario

**Marketing Office**—Toronto, Ontario

**Stock Exchange Listings**—Montreal, Toronto & Vancouver

**Transfer Agent and Registrar**—  
Montreal Trust Company  
Toronto, Montreal, Regina, Calgary & Vancouver

**Bankers**—The Royal Bank of Canada,  
The Toronto-Dominion Bank

**Shareholders' Auditors**—Price Waterhouse & Co.

**FRANK D. LACE, D.S.O., O.B.E.**,  
Toronto  
*President—Matthews & Company Limited*

**J. DONALD MINGAY, D.S.O., O.B.E.**,  
Toronto  
*President and Chief Executive Officer—  
Consumers Glass Company Limited*

**HUGH J. McLAUGHLIN, Q.C.**, Toronto  
*Partner—McLaughlin, May, Soward,  
Morden & Bales*

**WILLIAM H. YOUNG**, Hamilton  
*President—The Hamilton Group Limited*

## OFFICERS

**C. MALIM HARDING**  
*Chairman of the Board and  
Chief Executive Officer*

**ALBERT DAVIDSON**  
*President*

**HUGH J. McLAUGHLIN**  
*Vice-President*

**ERNEST C. CARTER**  
*Vice-President*

**PHILIP L. GUIT**  
*Vice-President, Manufacturing*

**ALBERT F. KLINKHAMMER**  
*Vice-President, Administration*

**JAMES H. LAING**  
*Vice-President, Distribution Services*

**JOHN G. URQUHART**  
*Vice-President, Marketing*

**GERALD A. MURRAY**  
*Treasurer*

**GORDON H. BROWN**  
*Secretary*

*The Annual Meeting of Shareholders will be held on February 8th, 1972, at  
11.00 a.m., at the Head Office of the Company.*

# Financial Highlights

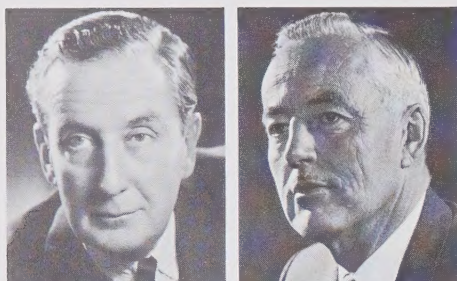
## Year Ended October 31

	<u>1971</u>	<u>1970</u>	<u>Change from 1970</u>
Sales .....	<b>\$32,967,229</b>	\$30,035,610	+ 10%
Income before taxes .....	<b>2,538,827</b>	2,012,556	+ 26%
Income taxes .....	<b>1,240,000</b>	959,500	+ 29%
Net income .....	<b>1,298,827</b>	1,053,056	+ 23%
Earnings:			
Per share .....	<b>.80</b>	.66	+ 21%
As a percentage of sales .....	<b>3.9%</b>	3.5%	+ 11%
As a percentage of capital employed at beginning of year* ..	<b>7.4%</b>	6.3%	+ 17%
As a percentage of shareholders' equity at beginning of year .....	<b>11.4%</b>	9.6%	+ 19%
Dividends paid to shareholders:			
Per share .....	<b>.48</b>	.48	
As a percentage of earnings .....	<b>60%</b>	73%	— 18%
Capital expenditures .....	<b>1,624,011</b>	2,024,681	— 20%
Depreciation .....	<b>1,053,261</b>	974,720	+ 8%
Working capital .....	<b>8,310,856</b>	8,239,533	+ 1%
Ratio of current assets to current liabilities .....	<b>1.7 to 1</b>	1.7 to 1	
Long term debt .....	<b>5,790,921</b>	6,312,000	— 8%
Shares outstanding:			
Common .....	<b>532,424</b>	530,424	
Class A .....	<b>1,094,850</b>	1,076,000	+ 2%
Number of shareholders .....	<b>2,958</b>	2,675	+ 10%
Salaries, wages and employee benefits .....	<b>8,276,725</b>	7,299,279	+ 13%
Number of employees (average) .....	<b>1,156</b>	1,114	+ 4%

\*Capital employed represents total assets less current liabilities



# Report to the Shareholders



C. M. Harding

A. Davidson

It is now a matter of record that the long awaited recovery arrived in the late spring of 1971. In the case of our Company, this coincided with the start of our second half of the fiscal year.

It is encouraging that the improvement in consumer spending has been sustained over the past seven months and gives every indication of continuing into 1972. The carpet industry shared in this growth in consumer spending. On the other hand, sales of contract or commercial carpeting remained about the same level as the previous year.

Agreement has been reached by the major powers regarding currency revaluation. Canada is fortunate to retain a floating dollar but at the time of writing, it remains to be seen what concessions were made to obtain this agreement. The level at which the Canadian dollar settles will be of vital importance to our economy. It is to be hoped that it will not be too high.

The United States surcharge has been removed but it is not clear that the DISC program will be implemented. However, the main point in recent developments is that much of the general uncertainty has been removed from international relations. This should react favourably on our economy as well as that of other nations involved.

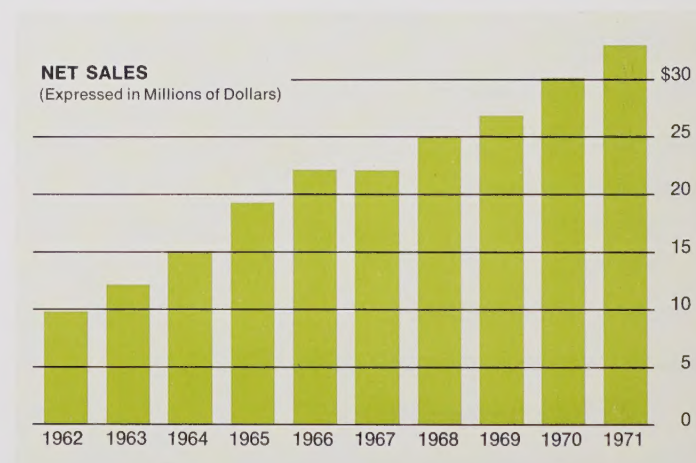
Canada is also concerned with the results of steps taken by the United States government to control inflation. If the United States, through price and income policy, are able to curb inflation and at the same time reduce unemployment, it may become necessary for Canada to adopt a similar type of policy.

With particular reference to the carpet industry, we can look forward to a continuation of a rate of growth in excess of that of the GNP. The reasons for this are

covered more adequately in the review of operations which follows.

The year ended with a strong consumer demand for domestic carpet. With the prospect of an increased level of housing starts and reasonable activity in commercial building, there appears to be good reason to expect continued expansion of the carpet market in 1972.

In the past three years your Company has invested six and one half million dollars of capital expenditures in manufacturing and distribution facilities plus investment in working capital for the expansion of distribution operations outside Ontario. At the same time the management group has been expanded and developed to keep pace with the increased scale of our operations. As a result, the Company is in an excellent position to grow with the market and maintain its position of leadership in the Canadian carpet industry.





### Income

The net income for the year was \$1,298,827 compared to \$1,053,056 last year reflecting an increase of 23%. Earnings per share of 80¢ are up from 66¢ in the previous year.

The 1971 net income includes grants earned under the designated area legislation for Collingwood of 4¢ per share. In 1970 the grant accounted for 16¢ per share. It is very gratifying to report that exclusive of the grant, net income per share for 1971 showed an increase of 52%.

Since the initial construction of the plant in Collingwood in 1967 the total grants earned amounted to \$1,009,489. No further grants can be obtained under the present legislation. There remains a balance of \$119,373 to be brought into income in approximately equal amounts over the years 1972 and 1973.

Earnings of 54¢ per share in the second half of the year compared to 26¢ per share in the first half reflect the dramatic change that occurred in the level of business

between these two periods. The increase in demand in the second half resulted in a very high utilization of our production capacity and a corresponding high level of volume handled by our distribution centres. These two factors accounted for the greatly improved earnings in the second half. Income for the year was adversely affected by a two month strike at our Guelph yarn plant.

### Dividends

Dividends of 48¢ per share were paid during the year on the same basis as the previous year. A dividend of 12¢ per share has been declared payable January 3, 1972.

### Sales

Sales reached a record level of \$32,967,229 reflecting a 10% increase over the previous year. For our first six months it was reported that sales were down 2% from last year. In the second half sales were up 22% over the same period last year to make a very satisfactory overall increase for the year.

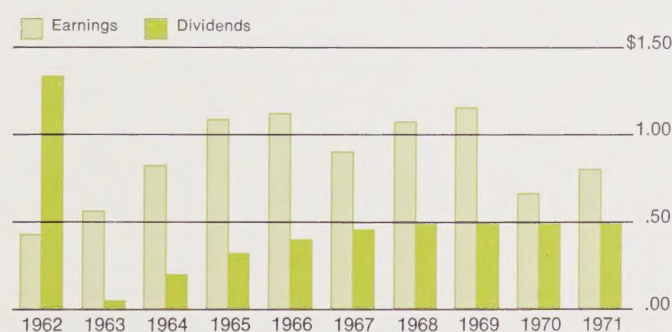
In contrast to 1970, sales for 1971 reflect a higher domestic volume brought about by a strong comeback in consumer spending whereas the volume of contract carpet for commercial and institutional applications remained about the same.

Export sales, while still a modest percentage of our total volume, have for the second consecutive year recorded satisfactory growth. The excellent acceptance of our product styling complemented our aggressive marketing in export markets. We look for continued progress in this area of our operations.

### Products

Prior to 1960 the Company was completely dependent on woven products. In the past 11 years we have seen

EARNINGS AND  
DIVIDENDS PER SHARE





a steady decline in the market for woven carpets, particularly in Wilton and Axminster weaves. In 1970 the volume of these two types of woven carpet reached a level where the operations were no longer profitable and as a result production was discontinued.

The weaving of Tapestry or Velvet carpet is down from peaks reached in earlier years but still continues at a satisfactory level and remains an important part of our operations.

Giving further impetus to tufting as a means of producing carpet, a major development of recent years is screen printing to produce a multi-colour patterned styling. Carpets can be printed on cut or loop pile or on the flat surface of needlepunch carpeting. Colour fastness is superior to that obtainable in dyed carpets and the penetration of colour in the pile surface can be controlled to obtain optimum results. The excellent pattern definition that is possible with screen printing offers broad scope for the styling of our products.

The installation of our screen printing plant was completed during 1971 and initial products reached the market in September. These will be followed shortly by additional products to serve a broad range of both household and commercial requirements. Our printed products are being marketed as "DESIGN DYED". The market acceptance of our "DESIGN DYED" products has been most enthusiastic and these products will play an important part in our sales growth in 1972 and subsequent years.

Early in 1971 the continuous dyeing plant was installed and provided additional capacity for the piece dyeing of carpets. In addition to large batch dyeing, particularly for contract work, it has made possible piece dyeing of carpet that formerly had to be stock dyed in fibre form, processed into yarn and then carpet. Piece dyed carpet has the advantage of lower production



*Room setting is highlighted with Harding Monterrey carpeting.*

costs and greater flexibility in servicing the colour requirements of the market. This means that with the piece dyeing of carpet as well as printing it is possible to give better service with less inventory.

Equipment for the second phase of our pilot plant was added during the year. The pilot plant covering all phases of our operation will be completed in the forthcoming year. With this expansion the Company is better equipped to maintain its leadership in product styling for the Canadian market. During the year 21 new products were introduced to our regular line in addition to exclusive products developed for major retail accounts. In addition to the printed products mentioned above, the new introductions included highly styled shag textures, multi-coloured stylings and a line of needlepunch products. The addition of needlepunch products broadens our market coverage into the lower priced field.



### Distribution

Since August 1969 the national distribution of the Company's products, together with underpadding and soft floor covering accessories, has been handled through Company-owned distribution centres located in Vancouver, Calgary, Winnipeg, Toronto, Montreal and Moncton.

The distribution operations have progressed very satisfactorily and now make a worthwhile contribution to Company earnings.

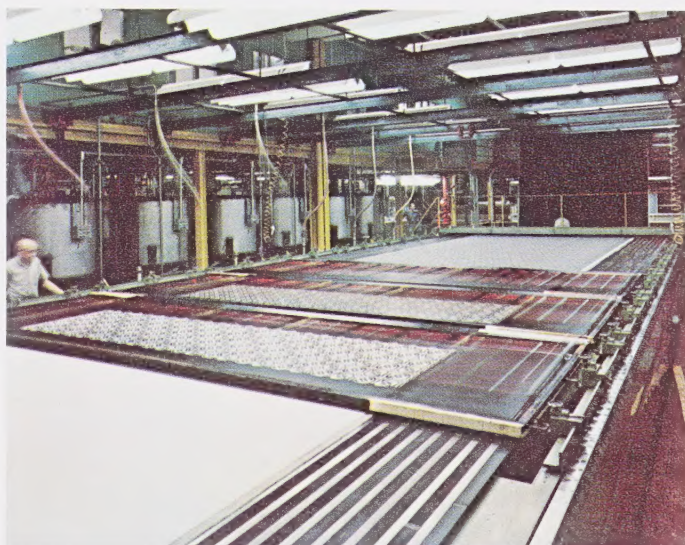
Mr. James H. Laing who was formerly General Manager of the Ontario distribution centre has been appointed Vice-President, Distribution Services. Through this change in organization we are planning closer co-ordination of our customer service requirements and inventory management between production and regional distribution.

### The Carpet Market

Following a decade when the carpet market in Canada grew almost four fold, 1970 was a year of marking time. This condition continued into 1971 until late spring when consumer demand for carpets along with many other consumer durables made a strong comeback. The strength of the consumer demand at retail suggests that many purchases had been deferred over the previous year and one half. The calendar year 1971 could very well end up with an industry growth of at least 15%.

A study conducted for the Economic Council of Canada projects for the next five years a growth for carpeting of 90% and rated carpeting as the second largest growth by function second only to education.

On this basis the carpet market, including automotive carpet, of approximately 42 million square yards in 1970 could very well be 70 to 75 million yards in 1975.



*New screen printing plant produces colourful, "Design Dyed" patterned carpet.*

Canadians are earning more each year and it has been established that as a family's income increases, so does its purchase of carpets. In the past decade carpet prices have actually come down. This is in contrast to steady increases in other commodities and an increase in the consumer price index of 35%. Through the use of man-made fibres, carpet performance has been improved which means better values for the consumer in addition to lower prices.

Contract carpet is finding an expanding market in offices, schools and many other commercial and institutional buildings. These are some of the reasons for the growth in recent years and the base of continued growth in the future.

Man-made fibres continue to dominate the face yarns used in the carpet industry both in the United States and Canada. Continuous filament nylon continues to account for the greatest consumption. Yarn spun from staple nylon has grown rapidly in recent years due in



part to the currently popular shag textures. Acrylics, polyesters and polypropylene make up the balance of the important fibres used in the industry in Canada.

Artificial turf produced on carpet machines has now made its appearance on playing surfaces in football fields in Canada. There are indications that more installations will be forthcoming on fields used by the Canadian Football League. This type of completely weatherproof carpeting should find uses in other sports such as baseball and is rapidly becoming a favourite covering for apartment balconies. We are able to produce artificial turf in our plants.

Do-it-yourself carpeting that can be installed by the consumer has been making good progress. On the other hand, carpet tiles have not yet lived up to expectations. Wall carpeting is growing in acceptance especially in the commercial field.

The printing machine is the most recent major development in the carpet industry. The ability to apply pattern and colour in a relatively short production

cycle and to combine the benefits of printing with the benefits of tufting are important advantages to the carpet producer in meeting the demands of a style conscious market.

Carpet imports were down 7% in 1970 and 4% for the first six months of 1971. Imports now account for 11% of the broadloom market.

### Financial Resources

Working capital of \$8,310,856 at October 31, 1971 is up \$71,323 from the previous year end. The Statement of Source and Use of Funds on page 13 shows the factors affecting working capital.

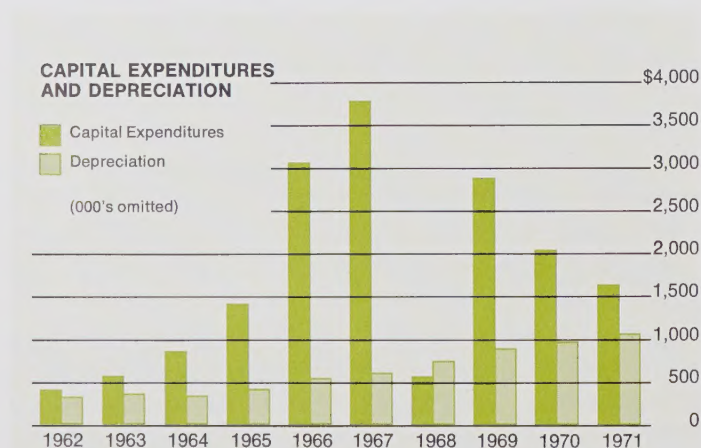
Accounts receivable are up 8% from one year ago; however, sales for the fourth quarter are up 25%. A definite improvement in collections has been made over the past year.

Inventories of \$11,396,303 have been maintained at the same level for the second consecutive year. With the increased sales of the past two years this reflects a significant improvement in inventory turnover. Marketing plans, distribution policies and product decisions are all being directed toward further improvement in inventory turnover and at the same time improving customer service. The increase in volume of piece dyed and printed carpets will further contribute to both of these objectives.

The Board has given approval for additional financing through the issue of sinking fund debentures. It is intended that the proceeds will be applied to reduction of bank indebtedness created in recent years through our investment in our own distribution and substantial additions to manufacturing capacity.

### Capital Expenditures

Capital expenditures of \$1,624,011 included the screen printing plant, additional tufting machines, additions





to our product development pilot plant and further expenditures on air pollution control.

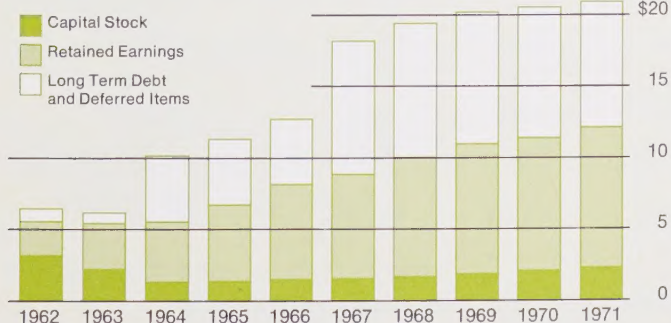
In 1972 capital expenditures will reach \$1,700,000. This includes a major addition to boiler capacity in Brantford and conversion to natural gas. A second drying line is required to handle the increased volume of piece dyeing and printing. Additional yarn spinning and processing equipment is being installed early in 1972 in the Collingwood plant. A building addition to the Ontario distribution centre at Toronto is planned to provide more central storage of finished goods and to replace warehouse space in plants required for manufacturing operations.

### Personnel

At year end there were 1,269 employees including 50 who have completed 25 years of service or more.

The re-employment of the staff of the Wilton and Axminster Departments, many of whom had long service with the Company, was a matter of some concern.

**CAPITAL EMPLOYED**  
(expressed in Millions of Dollars)



*A contract installation in Bell Canada offices features Harding Mural Wall Carpet and Argonaut Floor Carpeting.*

Apart from a few who elected early retirement, we successfully relocated all employees in other operations.

Stock options were granted in 1971 to 167 members of all levels of management of the Company and its subsidiaries.

During the year four union contracts were renewed and there are three due for renegotiation in 1972.

The Board of Directors is pleased to announce the appointment of Mr. J. Donald Mingay, President, Con-



sumers Glass Company Limited to fill the vacancy on the Board created by the resignation of Mr. John Campbell. Mr. Mingay, with his broad experience in industry will provide a valuable addition to our board.

The directors take this opportunity of expressing their appreciation to management and staff for their loyal and dedicated service which is so important to the success of the Company. To our customers and suppliers who have played a great part in our success in the past year, we also express our gratitude for their support.

#### Annual Meeting

The annual meeting of the Company will be held at the Head Office in Brantford on February 8, 1972 and we look forward to meeting shareholders at that time.

Respectfully submitted,

*Chas. Harding*

Chairman of the Board

*A. Davidson*

December 21, 1971

President

#### CANADIAN MARKET\* (estimate)

	Total Sq. Yds. (000's)	% of total supplied by Canadian Mills	Consumption per Household (square yards)			Canadian Per Capita Personal Disposable Income
			Canada	U.K.	U.S.A.	
1961	11,203	80.2	2.46	3.53	3.07	\$1,437
1962	11,736	85.8	2.49	3.70	3.66	1,535
1963	11,999	87.4	2.47	4.37	4.08	1,608
1964	15,806	87.2	3.14	5.04	4.73	1,679
1965	18,872	87.0	3.74	5.17	5.41	1,822
1966	23,525	88.4	4.54	5.23	5.94	1,973
1967	25,355	88.7	4.76	5.60	6.37	2,097
1968	31,193	87.4	5.67	6.00	7.61	2,236
1969	37,906	88.1	6.65	5.90	8.59	2,370
1970	37,804	89.0	6.47	6.11	8.41	2,390
% Increase						
1961/70	237.4%	11.0%	163.0%	73.1%	173.9%	66.3%

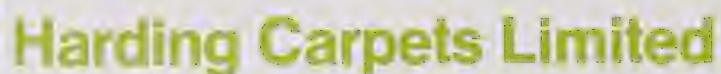
\*Exports and automotive carpet have been excluded. Adjustments from previous reports have been made in accordance with latest available information.



# Consolidated Statement of Income and Retained Earnings

	Year Ended October 31	
	1971	1970
Sales .....	\$32,967,229	\$30,035,610
Cost of Sales .....	24,189,012	22,141,630
Gross Profit From Operations .....	8,778,217	7,893,980
Deduct (Add) the following items:		
Selling, administrative and distribution expense .....	5,466,258	5,245,356
Debenture Interest .....	406,394	423,409
Other Interest .....	429,738	464,659
Government Grant—Collingwood .....	(63,000)	(252,000)
	6,239,390	5,881,424
Income Before Taxes .....	2,538,827	2,012,556
Taxes on Income .....	1,240,000	959,500
Net Income for the Year .....	1,298,827	1,053,056
Add: Retained Earnings at beginning of year .....	9,300,410	9,017,495
	10,599,237	10,070,551
Less: Dividend paid per common and Class A share (1971—48¢, 1970—48¢) .....	776,288	770,141
Retained Earnings at end of year .....	\$ 9,822,949	\$ 9,300,410
Earnings per share .....	\$ .80	\$ .66





## CURRENT

## Auditors' Report

We have examined the consolidated balance sheet of Harding Carpets Limited and its subsidiaries as at October 31, 1971, and the consolidated statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.



# Consolidated Balance Sheet

## Liabilities

	October 31	
	1971	1970
<b>CURRENT</b>		
Bank advances .....	\$ 5,601,899	\$ 6,240,404
Accounts payable and accrued liabilities .....	4,455,065	3,769,073
Income taxes payable .....	522,183	46,433
Instalments on long term debt due within one year .....	513,348	505,000
<b>TOTAL CURRENT LIABILITIES .....</b>	<b>11,092,495</b>	<b>10,560,910</b>
<b>LONG TERM DEBT (Note 4) .....</b>	<b>5,790,921</b>	<b>6,312,000</b>
<b>DEFERRED INCOME TAXES (Note 5) .....</b>	<b>2,910,000</b>	<b>2,575,000</b>
<b>DEFERRED INCOME (Note 9) .....</b>	<b>119,373</b>	<b>154,575</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock (Note 6)		
Common shares without par value		
Non-voting Class A shares with a par value of 50¢ each		
Authorized		
Common shares—1,000,000 shares		
Class A shares —2,000,000 shares		
Issued and outstanding		
Common shares— 532,424 shares } .....	2,293,251	2,106,597
Class A shares —1,094,850 shares } .....		
<b>Retained earnings .....</b>	<b>9,822,949</b>	<b>9,300,410</b>
	<b>12,116,200</b>	<b>11,407,007</b>
	<b>\$32,028,989</b>	<b>\$31,009,492</b>

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1971, and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, December 17, 1971

PRICE WATERHOUSE & CO.  
Chartered Accountants.



# Consolidated Statement of Source and Use of Funds

	Year Ended October 31	
	1971	1970
CURRENT ASSETS .....	\$19,403,351	\$18,800,443
CURRENT LIABILITIES .....	11,092,495	10,560,910
WORKING CAPITAL .....	<u>\$ 8,310,856</u>	<u>\$ 8,239,533</u>
 SOURCE OF FUNDS		
From Operations:		
Net income for the year .....	\$ 1,298,827	\$ 1,053,056
Charges or (credits) not involving current funds:		
Depreciation .....	1,053,261	974,720
Deferred income taxes (Note 5) .....	335,000	495,000
Government grant ....	(63,000)	(252,000)
Total from Operations .....	2,624,088	2,270,776
Government grant earned .....	27,798	87,620
Issue of capital stock (Note 6) .....	186,654	162,596
Reduction in fixed assets including disposals .....	154,161	53,378
	<u>2,992,701</u>	<u>2,574,370</u>
 USE OF FUNDS		
Expenditures on fixed assets .....	1,624,011	2,024,681
Dividends paid .....	776,288	770,141
Reduction in long term debt .....	521,079	512,123
	<u>2,921,378</u>	<u>3,306,945</u>
 WORKING CAPITAL INCREASE (DECREASE) .....	<u>\$ 71,323</u>	<u>\$ (732,575)</u>



# Notes to Financial Statements

**Year ended October 31, 1971**

## Note 1 — CONSOLIDATION

The consolidated financial statements include the accounts of Harding Carpets Limited and its subsidiaries, all of which are wholly owned.

## Note 2 — INVENTORIES

Valuation at October 31, 1971 at the lower of cost and market is consistent with previous years. Market price represents current replacement cost.

	1971	1970
Raw materials .....	\$ 961,066	\$ 1,110,242
Goods in process .....	3,249,952	2,229,604
Finished goods .....	7,185,285	7,933,671
	<u>\$11,396,303</u>	<u>\$11,273,517</u>

## Note 3 — FIXED ASSETS

	1971		1970	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 582,204	\$ —	\$ 567,871	\$ —
Buildings	7,999,406	1,722,521	7,847,588	1,503,889
Machinery and Equipment	12,335,354	6,568,805	11,571,262	6,273,783
	<u>\$20,916,964</u>	<u>\$8,291,326</u>	<u>\$19,986,721</u>	<u>\$7,777,672</u>

Depreciation charged on the books is based on straight line rates of 2½ % for buildings and 9% for machinery and equipment. For the year ended October 31, 1971, the amount charged against income was \$1,053,261 (\$974,720 in 1970).

## Note 4 — LONG TERM DEBT

Series A, 6% 1984 .....	\$3,100,000
The sinking fund requirements call for payments of \$200,000 a year leaving a balance of \$900,000 due in 1984.	
Series B, 6½ %, 1987 .....	2,080,000
The sinking fund requirements call for payments of \$105,000 per year, leaving a balance of \$610,000 due in 1987.	
Adjustment Assistance Board Loan, 6%, 1974	374,225
The loan agreement requires semi-annual payments of \$100,000 each, the final payments being due in 1974.	
8% real estate mortgage repayable in monthly instalments of principal and interest of \$2,278 due and renewable in 1972	236,696
	<u>\$5,790,921</u>

## Note 5 — DEFERRED INCOME TAXES

Deferred income taxes arise as a result of claiming for income tax purposes maximum capital cost allowances which are in excess of depreciation recorded in the accounts. In 1971, this amounted to \$335,000 compared with \$495,000 in 1970.

## Note 6 — EMPLOYEES' STOCK OPTIONS

Options for 2,000 common and 18,850 Class A shares were exercised during the year ended October 31, 1971, for a cash consideration of \$186,654. Options for 2,000 common and 30,450 Class A shares were granted during the year. Options outstanding as of October 31, 1971 are as follows:

	Common		Class A	
Expiration Date of Options	Number of Shares	Option Price per Share	Number of Shares	Option Price per Share
Nov. 6/71	2,000	\$17.10	13,200	\$16.20
Dec. 13/71	—	—	800	18.225
Nov. 7/72	2,000	14.85	16,150	14.175
Dec. 3/73	—	—	10,500	8.8875
	<u>4,000</u>		<u>40,650</u>	

Subsequent to October 31, 1971, options for 2,000 common and 34,150 Class A shares were granted at \$10.9125 and \$10.35 per share respectively. These options granted to 167 staff members expire November 12, 1974.

Options outstanding at October 31, 1971 or options granted subsequent to October 31, 1971 do not vary significantly the diluted share earnings from reported share earnings.

## Note 7 — DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

Direct remuneration of directors and senior officers totalled \$310,000 during the year ended October 31, 1971 (\$302,000 in 1970).

## Note 8 — PENSION

In 1948, the Company introduced its Employees' Pension Plan. This Plan was integrated with the Canada Pension Plan and the Quebec Pension Plan in 1966. Employees contribute 5% of their earnings to these Plans with the Company making up the balance to provide a minimum benefit of approximately 2% for each year of service. The past service liability is fully funded.

The Deferred Profit Sharing Plan was introduced in 1960. It is a trustee plan which is paid for completely by the Company and has to date been mainly invested in the shares of Harding Carpets Limited.

Since 1948, net pension and profit sharing contributions have been as follows (including subsidiary companies):

	Company Net Contributions	Employees Net Contributions
Past service	\$ 319,461	\$ —
Employees' Pension Plan .....	1,194,178	1,462,497
Canada Pension Plan and Quebec Pension Plan .....	444,327	444,327
Deferred Profit Sharing Plan* ..	477,675	—
	<u>\$2,435,641</u>	<u>\$1,906,824</u>

\*(The market value of the Deferred Profit Sharing Plan fund at October 31, 1971 was \$781,130).

The cost to the Company of the Pension Plans and the Deferred Profit Sharing Plan in 1971 was \$246,103 (1970—\$214,912).

## Note 9 — DEFERRED INCOME

This is the balance of Area Development grants in respect of capital expenditures in Collingwood to October 31, 1971, to the extent that they have not been taken into income. This balance will be taken into income in 1972 and 1973 in accordance with the practice established in prior years.



# 10 Year Summary of Financial Data

(000's omitted)

## OPERATING RESULTS

	1971	1970
SALES .....	<b>\$32,967</b>	\$30,035
Depreciation .....	<b>1,053</b>	975
Interest .....	<b>836</b>	888
Income before taxes .....	<b>2,539</b>	2,013
Income taxes .....	<b>1,240</b>	960
NET INCOME ..... <sup>1</sup>	<b>\$ 1,299</b>	\$ 1,053
Per Share ..... <sup>2</sup>	<b>\$ 0.80</b>	\$ 0.66
As a percentage of sales .....	<b>3.9%</b>	3.5%
As a percentage of capital employed at beginning of year .....	<b>7.4%</b>	6.3%
As a percentage of shareholders' equity at beginning of year .....	<b>11.4%</b>	9.6%
Dividends paid ..... <sup>3</sup>	<b>\$ 776</b>	\$ 770
Per preference share ..... <sup>4</sup>	—	—
Per common and Class A share ... <sup>2</sup>	<b>\$ 0.48</b>	\$ 0.48
RETAINED EARNINGS FOR YEAR .....	<b>\$ 523</b>	\$ 283

## CAPITAL EXPENDITURES

**\$ 1,624**      \$ 2,025

## OTHER FINANCIAL DATA

WORKING CAPITAL .....	<b>\$ 8,311</b>	\$ 8,240
Ratio of current assets to current liabilities .....	<b>1.7 to 1</b>	1.7 to 1
Inventories .....	<b>\$11,396</b>	\$11,274
Fixed assets (net) .....	<b>\$12,626</b>	\$12,209
Long term debt .....	<b>\$ 5,791</b>	\$ 6,312
SHAREHOLDERS' EQUITY .....	<b>\$12,116</b>	\$11,407
Shareholders' equity per share ..... <sup>2</sup>	<b>\$ 7.45</b>	\$ 7.11

<sup>1</sup> The net income for the years 1965 to 1971 have benefited under designated area legislation. For the years 1965 to 1967 taxation was reduced and from 1967 to 1971 income included grants for the Collingwood plant.  
Net income in 1969 is shown before extraordinary item less applicable income taxes representing national distribution start-up costs.



# YEAR ENDED OCTOBER 31

1969	1968	1967	1966	1965	1964	1963	1962
\$26,842	\$24,958	\$22,040	\$22,089	\$19,350	\$15,001	\$12,058	\$ 9,886
889	765	609	531	426	335	375	329
514	624	434	294	270	203	46	51
3,651	3,238	1,776	2,894	2,886	2,635	1 849	1,411
1,814	1,545	366	1,133	1,209	1,340	895	699
\$ 1,837	\$ 1,693	\$ 1,410	\$ 1,761	\$ 1,677	\$ 1,295	\$ 954	\$ 712
\$ 1.15	\$ 1.07	\$ 0.90	1.12	\$ 1.08	\$ 0.82	\$ 0.56	\$ 0.43
6.8%	6.8%	6.4%	8.0%	8.7%	8.6%	7.9%	7.2%
9.4%	10.6%	13.6%	16.8%	18.0%	22.5%	15.1%	11.6%
18.3%	18.8%	17.0%	25.8%	30.1%	23.8%	17.0%	13.2%
\$ 765	\$ 755	\$ 723	\$ 626	\$ 505	\$ 334	\$ 183	\$ 2,089
—	—	—	—	—	5¾ %	5¾ %	5¾ %
\$ 0.48	\$ 0.48	\$ 0.46	\$ 0.40	\$ 0.32	\$ 0.20	\$ 0.05	\$ 1.34
\$ 710	\$ 938	\$ 687	\$ 1,298	\$ 1,172	\$ 961	\$ 771	\$ 517
\$ 2,887	\$ 566	\$ 3,777	\$ 3,045	\$ 1,402	\$ 856	\$ 572	\$ 411
\$ 8,972	\$10,213	\$ 8,563	\$ 6,270	\$ 7,187	\$ 6,964	\$ 3,488	\$ 3,853
1.9 to 1	3.5 to 1	2.7 to 1	2.1 to 1	3.2 to 1	4.4 to 1	2.1 to 1	3.4 to 1
\$11,324	\$ 8,359	\$ 7,427	\$ 6,725	\$ 5,015	\$ 4,472	\$ 3,732	\$ 3,170
\$11,212	\$ 9,235	\$ 9,559	\$ 6,451	\$ 3,947	\$ 2,987	\$ 2,425	\$ 2 233
\$ 6,824	\$ 7,095	\$ 7,600	\$ 4,100	\$ 4,300	\$ 4,500	\$ 740	\$ 860
\$10,961	\$10,034	\$ 8,992	\$ 8,281	\$ 6,816	\$ 5,564	\$ 5,451	\$ 5,601
\$ 6.87	\$ 6.35	\$ 5.71	\$ 5.27	\$ 4.38	\$ 3.59	\$ 2.95	\$ 2.45

<sup>②</sup> Adjusted to reflect subdivision of each common share, on March 16, 1964, and each common and Class A share on February 11, 1967.

<sup>③</sup> Includes stock dividend of \$1,893,750 paid on the common shares in 1962.

<sup>④</sup> Preference shares redeemed February 17, 1964.





The advertisement shown above appeared this fall in Canadian trade publications, introducing the company's new "Design Dyed" carpet line. Lines featured in the illustration above include Spanish Mosaic in the main photograph and, counterclockwise: Italian Marble, Paisley, and Mediterranean Tile.



# HARDING CARPETS

## Plant Locations

Brantford, Guelph and Collingwood, Ontario.

## Regional Distribution Centres

Vancouver	—4161 Canada Way, Burnaby
Calgary	—3030-9th Street S.E., Calgary
Winnipeg	—1555 Inkster Boulevard, Winnipeg
Toronto	—35 Worcester Road, Rexdale
Montreal	—1475 Montee de Liesse, St. Laurent
Moncton	—1220 St. George Boulevard, Moncton

## ON THE COVER

*Illustrated is Harding Carpets Mediterranean Tile.*





There is a guaranteed difference in

**HARDING  
CARPETS**





Semi-Annual Report  
April 30, 1971



## TO THE SHAREHOLDERS:

Sales for the six months of \$15,102,000 were down 2% from last year. The lower dollar sales reflect a decrease in volume of accessories and lower prices for carpet brought about by the competitive conditions which have prevailed. The physical volume of sales from our own manufacturing was the same as last year.

Income for the first six months of \$415,000 or 26¢ per share compares with \$565,000 or 35¢ per share for the same period last year. Net income before the government grant (2¢ 1971—8¢ 1970) was 24¢ per share this year compared to 27¢ per share last year.

In the second quarter, the pressure on prices in order to maintain sales, together with the cost of unused plant capacity and a strike at our spinning plant in Guelph, had an adverse effect on profit margins. Sales for the six months being below budget have resulted in a higher percentage impact of selling, administrative and distribution expenses on profit.

During the first half year, the continuous dyeing plant was placed in operation and installation of the screen printing plant is now completed and undergoing production trials.

During the second half of the year, we will phase out the manufacture of woven Wilton and Axminster carpets. With the growth of tufted carpet, the volume of Wilton and Axminster

has decreased to the point that it is no longer profitable to carry on our own manufacture. We expect personnel involved will be absorbed in other departments and that there will not be any significant loss to absorb. The space vacated by these departments will be utilized.

We will continue to weave tapestry carpets and are making arrangements for alternate sources of Wilton and Axminster so that we will continue to fill the needs of our customers through our distribution centres.

During the first six months the expected recovery in demand of consumer durables including carpets did not materialize. The problems of profitability and volume that confronted your company are general throughout the carpet industry. In recent weeks there have been some encouraging indications of an improvement in business which could benefit the balance of the year.

## ON BEHALF OF THE BOARD



Chairman



President

June 8, 1971  
Brantford, Ontario

# CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	3 months ended <u>April 30</u>		6 months ended <u>April 30</u>	
	<u>1971</u>	<u>1970</u>	<u>1971</u>	<u>1970</u>
SALES .....	\$7,863,713	\$8,358,790	\$15,101,866	\$15,412,712
COST OF SALES .....	<u>5,870,224</u>	<u>6,205,514</u>	<u>11,101,953</u>	<u>11,410,809</u>
GROSS PROFIT from Operations .....	1,993,489	2,153,276	3,999,913	4,001,903
LESS: Selling, administrative and distribution expense .....	<u>1,389,594</u>	<u>1,331,988</u>	<u>2,777,690</u>	<u>2,642,472</u>
OPERATING PROFIT .....	603,895	821,288	1,222,223	1,359,431
DEDUCT (ADD):				
Interest .....	224,576	220,194	445,309	429,630
Government grant — Collingwood .....	<u>(15,750)</u>	<u>(63,000)</u>	<u>(31,500)</u>	<u>(126,000)</u>
PROFIT before taxes on income .....	395,069	664,094	808,414	1,055,801
Taxes on income .....	<u>199,000</u>	<u>322,000</u>	<u>393,000</u>	<u>491,000</u>
NET INCOME for the period .....	<u>\$ 196,069</u>	<u>\$ 342,094</u>	<u>\$ 415,414</u>	<u>\$ 564,801</u>
Earnings per common and Class A share .....	12¢	21¢	26¢	35¢



# CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

(unaudited)

	6 months ended April 30	
	<u>1971</u>	<u>1970</u>
<b>SOURCE OF FUNDS</b>		
From Operations:		
Net income for period .....	\$ 415,414	\$ 564,801
Charges or (credits) not involving current funds		
Depreciation .....	517,512	468,792
Deferred Income Taxes .....	62,500	298,000
Government grant* .....	(31,500)	(126,000)
Total from operations .....	<u>963,926</u>	<u>1,205,593</u>
Issue of capital stock .....	133,987	162,596
	<u>1,097,913</u>	<u>1,368,189</u>
<b>USE OF FUNDS</b>		
Expenditures on fixed assets (net) .....	986,918	674,668
Dividends paid .....	386,028	384,600
Reduction in long term debt .....	408,784	408,498
	<u>1,781,730</u>	<u>1,467,766</u>
<b>WORKING CAPITAL (DECREASE)</b> .....	<u><u>\$ (683,817)</u></u>	<u><u>\$ (99,577)</u></u>

\*The portion of the designated area grant for the Collingwood Plant which has been included in income for the period.

# ÉTAT CONSOLIDÉ DE PROVENANCE ET D'AFFECTATION DES FONDSD

(non vérifié)

Pour le semestre clos

le 30 avril

1971  
1970

## PROVENANCE DES FONDSD

Décaulant de l'exploitation:

Profit net de la période

Frais ou (crédits) n'affectant pas le fonds de roulement —

Amortissement

Impôts sur le revenu reportés

Subvention du gouvernement\*

Total en provenance de l'exploitation

Emission de capital-actions

## AFFECTATION DES FONDSD

Dépenses en immobilisations (montant net)

Dividendes versés

Diminution de la dette à long terme

## FONDS DE ROULEMENT (DIMINUTION)

\*Partie des subventions aux zones désignées applicable à l'usine de Collingwood et incluse dans les revenus de la période.

\$ 415,414	\$ 564,801
517,512	468,792
62,500	298,000
(31,500)	(126,000)
963,926	1,205,593
133,987	162,596
1,097,913	1,368,189
986,918	674,668
386,028	384,600
408,784	408,498
1,781,730	1,467,766
\$ (683,817)	\$ (99,577)



# ÉTAT CONSOLIDÉ DU REVENU

(non vérifié)

Pour le trimestre clos

le 30 avril

Pour le semestre clos

le 30 avril

	1971	1970		1971	1970
VENTES .....	\$7,863,713	\$8,358,790	\$15,412,712	\$15,101,866	11,410,809
COÛT DES VENTES .....	5,870,224	6,205,514	11,101,953	11,101,953	4,001,903
PROFIT BRUT D'EXPLOITATION .....	1,993,489	2,153,276	3,999,913	2,777,690	2,642,472
A DEDUIRE: Frais de vente, de gestion et de distribution .....	1,389,594	1,331,988	1,222,223	1,359,431	
PROFIT D'EXPLOITATION .....	603,895	821,288			
DEDUIRE (AJOUTER):					
Intérêt .....	224,576	220,194	445,309	429,630	
Subvention du gouvernement — Collingwood .....	(15,750)	(63,000)	(31,500)	(126,000)	
PROFIT avant impôts sur le revenu .....	395,069	664,094	808,414	1,055,801	
Impôts sur le revenu .....	199,000	322,000	393,000	491,000	
PROFIT NET de la période .....	\$ 196,069	\$ 342,094	\$ 415,414	\$ 564,801	
Bénéfices par action ordinaire et par action de la classe A .....					

## AUX ACTIONNAIRES:

Le chiffre d'affaires du premier semestre a atteint \$15,102,000, soit 2% de moins qu'au cours de la même période de l'exercice précédent. Cette baisse est attribuable à une diminution du volume des ventes de produits accessoires aux tapis, de même qu'à la réduction des prix de vente des tapis par suite de la conjoncture concurrentielle. En ce qui concerne les articles que nous fabriquons, le volume de nos ventes s'est maintenu au même niveau que l'an passé.

Le revenu du premier semestre se dégage à \$415,000, soit 26¢ par action, contre \$565,000, ou 35¢ par action, pour la même période de l'exercice précédent. Le revenu net avant la subvention gouvernementale (2¢ en 1971 — 8¢ en 1970) était donc de 24¢ par action, contre 27¢ l'an dernier.

Au cours du deuxième trimestre, la pression exercée sur les prix en vue de maintenir le chiffre d'affaires, combinée avec les frais d'une chaîne inactive et d'une grève à notre filature de Guelph, a sérieusement comprimé les marges de bénéfices. Les ventes réalisées au cours du semestre ayant été inférieures aux prévisions, le pourcentage des frais de vente, de gestion et de distribution s'est accru au détriment du profit.

Au cours de ce premier semestre, la chaîne de teinture continue a été mise en activité et les ateliers d'impression par cadres ont été complétés et sont présentement soumis aux essais préalables à la production.

Au cours de deuxième semestre, on procédera à la cessation graduelle de la fabrication des tapis tissés Wilton et Axminster. La production de ces types de tapis est trop réduite par la vogue croissante des tapis touffetés pour en poursuivre profitablement la fabrication. Nous espérons que le personnel impliqué sera affecté dans nos autres services et que la perte qui en résultera sera négligeable. D'ailleurs, les locaux ainsi libérés seront disponibles et utilisés autrement.

Nous poursuivrons le tissage des tapisseries et nous nous organisons, grâce à des ententes, pour continuer à fournir, par nos centres de distribution, des Wilton et des Axminster pour les besoins de notre clientèle fidèle à ces types de tapis.

La reprise de la demande en biens d'ameublement, en particulier de tapis, que nous attendions ne s'est pas fait sentir. Les problèmes de rentabilité et de volume auxquels votre compagnie doit faire face affectent tout l'ensemble de l'industrie du tapis. Cependant, au cours de ces dernières semaines, on a noté une nette amélioration des affaires qui pourrait s'avérer bénéfique au cours du second semestre.

## AU NOM DU CONSEIL

Président du conseil

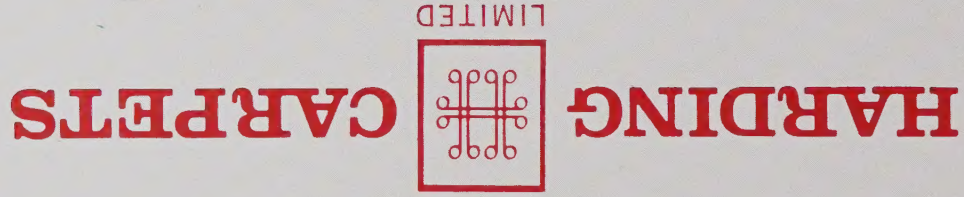
le 8 juin 1971

Brantford, Ontario

Président

*W. H. Haveling*  
*W. H. Haveling*





Rapport semestriel  
30 avril 1971